

June 2008



**Preserving the Dream:  
Understanding  
and Addressing the  
Subprime Mortgage Crisis**

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Neighborhood Funders Group is a membership association of grantmaking institutions. Our mission is to strengthen the capacity of organized philanthropy to understand and support community-based efforts to organize and improve the economic and social fabric of low- and moderate-income urban neighborhoods and rural communities. We provide information, learning opportunities and other professional development activities to our national membership, and encourage the support of policies and practices that advance economic and social justice.

## **Issue Briefs**

The Neighborhood Funders Group periodically publishes in-depth examinations of emerging issues and strategies of concern to funders. Issue Briefs are written specifically for funders working to support efforts that strengthen rural and urban communities.

## **Prepared By: Doug Dylla**

Doug Dylla (dougdylla@aol.com) is a writer and community development consultant specializing in homeownership, financial education and foreclosure-prevention issues.

## **Acknowledgements**

The author would like to acknowledge the assistance of key informants George McCarthy of the Ford Foundation, Laurie Latuda of the Goldseker Foundation, Bob Jaquay of the George Gund Foundation, Wendy Jackson of the Kresge Foundation and J. Michael Collins of PolicyLab Consulting Group as well as Bettye Brentley and Rick Leon at the Neighborhood Funders Group. Additional research for the paper was provided by Dean Caldwell-Tautges.

## **Staff**

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# **Preserving the Dream: Understanding and Addressing The Subprime Mortgage Crisis**

**A Neighborhood Funders Group Issue Brief**

**June 2008**



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## Executive Summary

Throughout the past 15 years, the United States has experienced a revolution in mortgage finance. Our mortgage markets have changed dramatically and become much more complex. These changes have had many positive aspects but also some serious negative consequences.

On the positive side, many new technological innovations were implemented in the financial services industry such as credit scoring, expanded mortgage securitization and automated underwriting. These innovations, combined with policy changes and a period of historically low-interest rates, created unprecedented access to credit for many Americans—allowing them to purchase homes and tap their home equity, providing liquidity to many low- and moderate-income families.

However, this era of easy credit came with many challenges. The complexity of the new mortgage market came with an array of new players, options, and products that thoroughly confused most consumers—leading many of them to choose inferior and risky products. Subprime lending also exploded during the last decade with its aggressive marketing techniques and its mortgage broker sales channel. Overall, an under-regulated lending market produced risky, costly and exotic mortgages that eventually produced a system-wide crisis that challenges the basic safety and soundness of the nation’s mortgage lending industry.

This leads us to the current situation: the nation has 54 million mortgage borrowers and 7.1 million hold subprime mortgages (more than 13 percent of all loans).<sup>1</sup> These risky subprime mortgages have been defaulting at rates up to 20 times higher than the rates of prime mortgages.<sup>2</sup> As of the fourth quarter 2007, 1.2 million foreclosures are in process while another 1.8 million loans are seriously delinquent.<sup>3</sup> All told, more than two million foreclosures totaling up to \$3 trillion in value are expected in 2008-2009.<sup>4</sup> The damage has spread from subprime to prime mortgage markets which are now experiencing record levels of default, as well. Researchers have also noted this contagion effect spreading internationally, with housing bubbles now bursting in Ireland, Spain, England, and other countries.<sup>5</sup>

With housing values declining in many U.S. markets, an estimated 8.8 million homeowners now have mortgages worth more than the value of their homes, leaving them in risky situations and unable to refinance their mortgages for the immediate future.<sup>6</sup> If price declines continue to accelerate, this number could double in the next year. The negative impacts of declining home values and rising defaults affect not only the families involved, but also their neighbors, the larger community and the nation as a whole. “This downward spiral of lost confidence and credit contraction threatens to touch off the worst recession and most serious social crisis of the post-World War II era,” says Eugene A. Ludwig, comptroller of the currency from 1993-1998.<sup>7</sup>

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<sup>1</sup> Mortgage Bankers Association, *National Delinquency Survey, Fourth Quarter 2007*. March 2008.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Mark Zandi, Statement before the House Judiciary Committee United States House of Representatives. October 30, 2007. <http://judiciary.house.gov/OversightTestimony.aspx?ID=1188>

<sup>5</sup> Mark Lander, “U.S. housing collapse spreads overseas,” *Herald Tribune*, April 14, 2008.

<sup>6</sup> Mark Zandi, Moody’s Economy.com.

<sup>7</sup> *American Banker*. April 4, 2008.

Every day headlines publicize the growing subprime mortgage crisis and its tsunami-like effect on communities across the nation and credit markets across the world. This briefing paper will explore how this crisis developed, highlight strategies that some communities are using to mitigate its negative impacts, review recent federal proposals to address the situation and discuss possible intervention strategies that foundations can pursue to address the crisis.

## Background

Historically, major life crises such as loss of employment, divorce, overwhelming debts and disability have been the “trigger events” for foreclosures — but the causes behind the recent surge in foreclosures are different. The current crisis largely appears to be the result of structural changes in the U.S. mortgage market within the past decade.

For all practical purposes, the current foreclosure surge is being laid at the doorstep of the subprime lending industry. The subprime market was developed in the early 1990s primarily to provide home refinance loans to households with impaired or limited credit history. Borrowers who received these loans typically had unstable incomes, limited savings, unstable employments, low incomes, blemished credit and/or high levels of debt. Subprime lenders charge higher interest rates to offset the higher risk of their borrowers compared with prime loan borrowers.

Between 1994 and 2004, 80 percent of subprime loans were refinance loans, not home purchase loans. Despite broad conceptions to the contrary, subprime loans during this period rarely helped to promote homeownership for “difficult to serve” borrowers, but were used mostly to help existing low-income and minority homeowners to access equity in their homes. It was only after 2005 that any significant share of subprime loans was used for purchase—which helped to exacerbate speculative pressure on housing markets. In other words, subprime loans did not help to fuel the major expansion of homeownership that took place from 1994-2004 as many now claim. This expansion in homeownership was done primarily by Community Reinvestment Act (CRA) lenders, state housing finance agencies, targeted programs subsidized by state and federal governments and others providing affordable loans to low- and moderate-income households. From 2004-2006, when homeownership rates were falling, the share of subprime loans grew in the purchase market.<sup>8</sup>

Accessing new sources of capital provided by Wall Street firms (Collateralized Debt Obligations—sophisticated and risky securities backed by subprime mortgages), subprime lenders typically used independent mortgage brokers as their sales force to aggressively originate loans with loose credit standards to consumers—sometimes using risky, high-cost and so-called “exotic mortgage” products [See “Nightmare Mortgages” in Appendix A, page 33, for more details.] Subprime lenders were generally not regulated by federal and state banking regulators. Thus, their share of the mortgage market quickly rose from virtually nothing in 1996 to almost 23 percent by 2006 through using “push marketing” tactics with unsuspecting consumers, employing predatory practices or even fraud to entice consumers.<sup>9</sup>

Consumers were not wholly without fault either. Some used their homes as ATM machines by refinancing repeatedly (often paying high interest rates, high fees and prepayment penalties to subprime lenders) to pull equity out of their homes for cars, second homes and other consumer goods and services. They became increasingly buried in unsustainable debt. Others purchased homes as speculative investments with mortgage payments they couldn’t afford, knowingly or

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<sup>8</sup> Ellen Schloemer, Wei Li, Keith Ernst, and Kathleen Keest, *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners*, Center for Responsible Lending. December 2006. [www.responsiblelending.org](http://www.responsiblelending.org). Also, conversations with George McCarthy, program officer, Ford Foundation, May 2008.

<sup>9</sup> Ibid.

unknowingly, with little or no down payments, apparently assuming that housing prices would continue to appreciate forever and they could sell or refinance the home if they stumbled financially. This “Wild, Wild West” of lending worked for a while, or at least as long as housing values continued to appreciate in many markets. An environment with interest rates at 40-year lows helped sustain this home mortgage frenzy until 2006. All the while, federal and state bank regulators appeared to be “asleep at the switch” or, at the least, very slow to react to the growing risks of this new lending environment.

“Loans were sold to customers where there was no opportunity to succeed,” said Thomas P. FitzGibbon, Jr., executive vice president of MB Financial Bank, who testified before the U.S. House of Representatives in March 2007 on “the unscrupulous and in many cases, predatory practices imbedded in the mortgage lending delivery system. All the brokers thought they were on this train to nirvana,” he said. “There was no oversight or control, and no suitability evaluation of borrowers.”

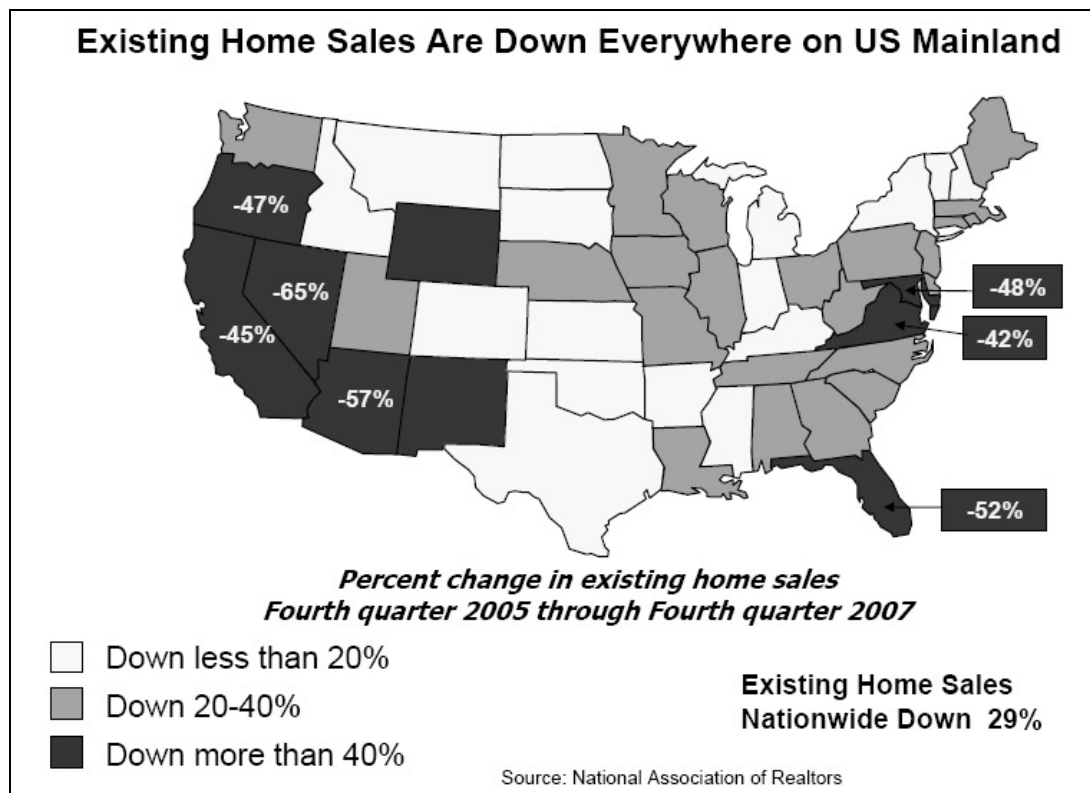
While “hot spot” pockets of foreclosures existed in the Midwest (Ohio, Indiana, Michigan) and elsewhere starting in 2003, the larger crisis started in 2006 when housing values in the previous “hot markets” of California, Nevada, Arizona and Florida began to cool off rapidly. Suddenly, home prices in these areas started plummeting and unsold housing inventories swelled. Between the fourth quarter of 2005 and the fourth quarter of 2007, existing home sales had plunged 29 percent nationwide and even higher in several states. For example, during this same period, existing home sales dropped 65 percent in Nevada, 57 percent in Arizona, 52 percent in Florida, 48 percent in Maryland and 45 percent in California.<sup>10</sup> Inevitably, 2007 home sale prices dropped more than 4 percent in California (-6.6 percent), Nevada (-5.9 percent), Florida (-4.7 percent) and Michigan (-4.3 percent).<sup>11</sup>

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<sup>10</sup> National Association of Realtors. [www.nar.com](http://www.nar.com).

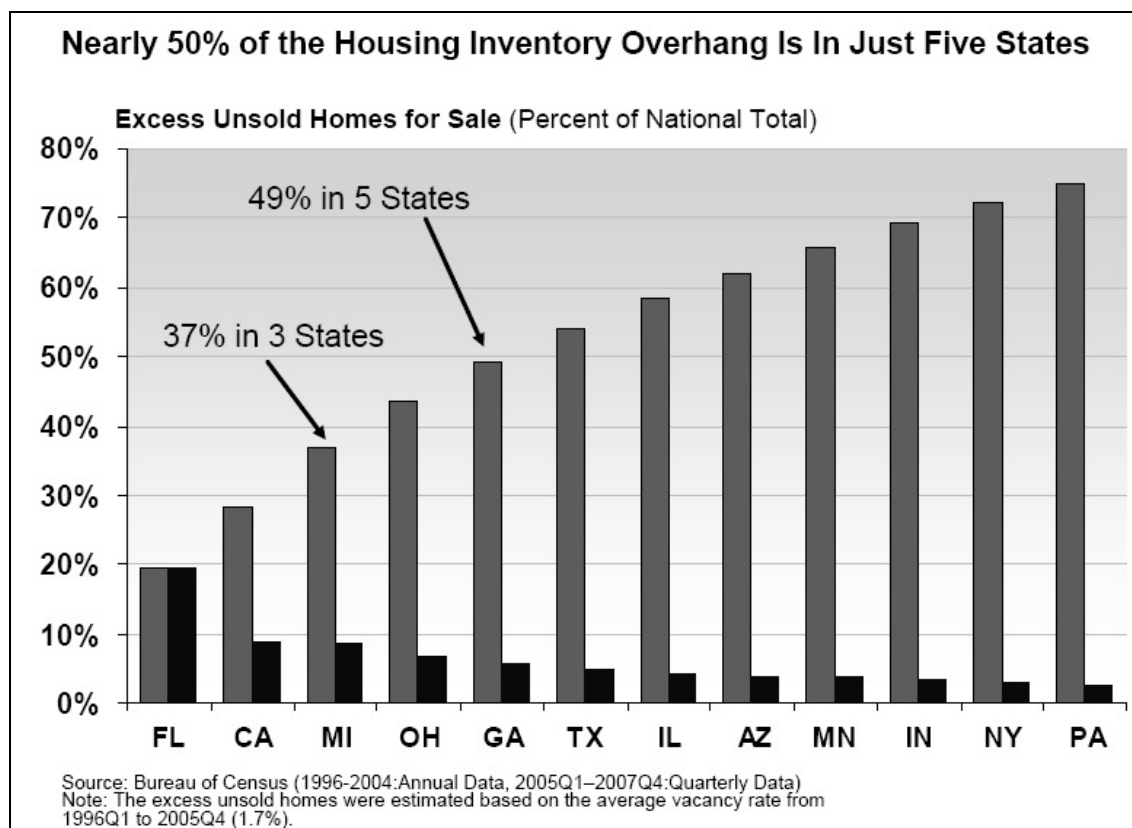
<sup>11</sup> Office of Federal Housing Enterprise Oversight, Fourth Quarter 2007 data. [www.ofheo.gov](http://www.ofheo.gov).





By the end of 2007, housing inventories in just five states (FL, CA, MI, OH and GA) accounted for 49 percent of the country's unsold inventory.<sup>12</sup>

<sup>12</sup> U.S. Bureau of Census, Fourth Quarter 2007 data. [www.census.gov](http://www.census.gov).



The softening of the housing market has created economic havoc for homeowners with little or no equity. Where previously these homeowners had been able to refinance or sell the property due to the rapid appreciation of their homes' values, now they were being squeezed by falling values, a weak economy and high mortgage payments. Thus, loan delinquencies and defaults surged.

According to Moody's Economy.com, more than 8.8 million borrowers had mortgages that exceeded the value of their homes in the first quarter of 2008, with the number expected to increase to 10.6 million in the second quarter. "It's an incredibly bad mix that is causing foreclosures to go skyward," reported Mark Zandi, chief economist of Moody's Economy.com.<sup>13</sup> The pace of price declines has continued to accelerate. According to OFHE, in the first quarter of 2008, house prices fell nationally at the highest quarterly rate on record while the year-on-year price decline has reached record levels, as well.<sup>14</sup>

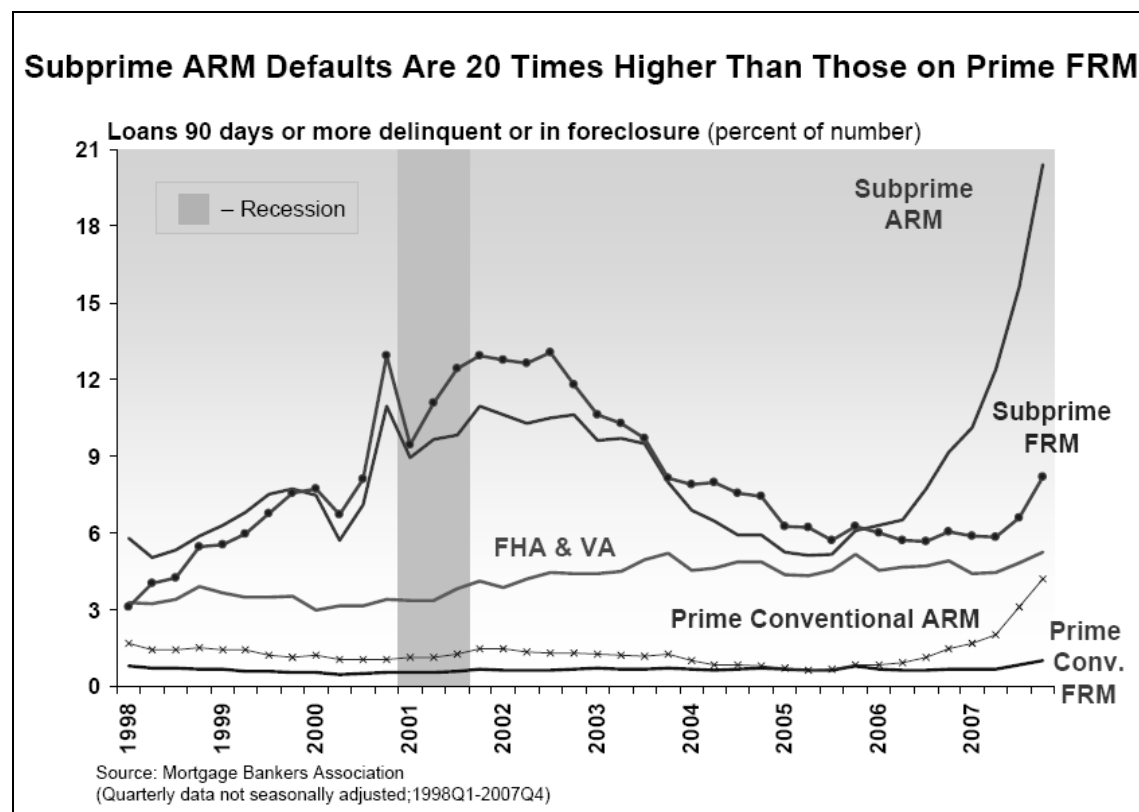
While foreclosure rates in the U.S. have historically hovered around one percent of all outstanding loans according to the Mortgage Bankers Association (MBA), foreclosure rates for subprime adjustable-rate mortgages (ARMs) and other exotic mortgages are now *ten to twenty times* greater than the foreclosure rates for prime fixed-rate mortgages (FRMs).<sup>15</sup>

<sup>13</sup> *Wall Street Journal*, April 10, 2008.

<sup>14</sup> Office of Federal Housing Enterprise Oversight, "Decline in Housing Prices Accelerates in First Quarter." May 22, 2008. [www.ofheo.gov](http://www.ofheo.gov).

<sup>15</sup> Mortgage Bankers Association. National Delinquency Survey, Fourth Quarter 2007.

“In February 2008, U.S. home foreclosure filings jumped 60 percent from a year earlier, and bank seizures of foreclosed properties more than doubled,” according to Eugene A. Ludwig, the comptroller of the currency from 1993 to 1998. “Two million more families currently stand to lose their homes, and more could follow as delinquencies continue to climb.”<sup>16</sup>



In one respect, the surprise is that this foreclosure crisis is a surprise to anyone. Housing advocates have been screaming about the problems of subprime and predatory lending for more than a decade. Moreover, the mortgage industry operates on wild boom and bust cycles, and it's been a “go-go” housing market for more than 15 years. Only a few years after the “dot com bust,” it seems that most investors forgot that the ride couldn't last forever.

A definitive study by the Center for Responsible Lending (CRL)<sup>17</sup> of six million subprime mortgages made from 1998 through the third quarter of 2006 suggested that 2.2 million of these loans—more than one third—will end in foreclosure within the next few years. The loans are predicted to fail due to their risky nature, loose underwriting, problematic housing market conditions or the vulnerability of the homeowners. The CRL study predicted that “one out of five subprime mortgages originated in the past two years [2005–2006] will end in foreclosure” and “will cost homeowners as much as \$164 billion.” Since a disproportionately large share of subprime loans were provided to African American and Latino homeowners, the study suggests that these projected losses in home equity will distress these minority communities greatly over the course of the next few years.

<sup>16</sup> *American Banker*. April 4, 2008.

<sup>17</sup> “Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners,” December 2006. CRL updated this analysis in March 2007 and increased the number of projected subprime foreclosures to 2.4 million.

According to the MBA, an estimated \$1.5 trillion in adjustable-rate mortgages are going to “reset” in 2008, and homeowners with these could see a significant increase in their monthly mortgage payments. The MBA predicts that this will prompt homeowners to refinance about \$700 billion worth of those adjustable-rate mortgages. Many in the industry fear that homeowners who are unable to refinance these loans or afford the higher monthly mortgage payments will be facing delinquency or foreclosure.

Realtytrac.com reports that foreclosure filings in the U.S. were up 57 percent in March 2008 compared to a year earlier, with the states of Nevada, California, Florida, Arizona, Colorado, Georgia, Ohio, Michigan, Massachusetts and Maryland having the highest foreclosure rates.

### Foreclosure Inventory, Fourth Quarter 2007

All Loans			Prime Loans			Subprime Loans			FHA Loans		
State	%	State Rank	State	%	State Rank	State	%	State Rank	State	%	State Rank
Ohio	3.88	1	Ohio	1.85	1	Ohio	13.7	1	Michigan	5.49	1
Indiana	3.53	2	Indiana	1.81	2	Minnesota	12.4	2	Ohio	4.70	2
Michigan	3.38	3	Florida	1.63	3	Michigan	12.3	3	Indiana	4.13	3
Florida	3.22	4	Michigan	1.62	4	Rhode Island	12.2	4	Colorado	3.46	4
Nevada	3.02	5	Nevada	1.33	5	Indiana	11.59	5	Wisconsin	3.11	5
Illinois	2.50	6	Mississippi	1.27	6	Massachusetts	11.41	6	Illinois	3.03	6
Rhode Island	2.41	7	Delaware	1.26	7	Florida	11.36	7	New Jersey	2.94	7
Maine	2.36	8	Iowa	1.19	8	Wisconsin	11.31	8	Massachusetts	2.83	8
Kentucky	2.32	9	Kentucky	1.17	9	Maine	11.26	9	Iowa	2.81	9
Wisconsin	2.24	10	Illinois	1.13	10	Illinois	11.09	10	Maine	2.73	10
<b>U.S.</b>	<b>2.04</b>		<b>U.S.</b>	<b>0.96</b>		<b>U.S.</b>	<b>8.65</b>		<b>U.S.</b>	<b>2.34</b>	

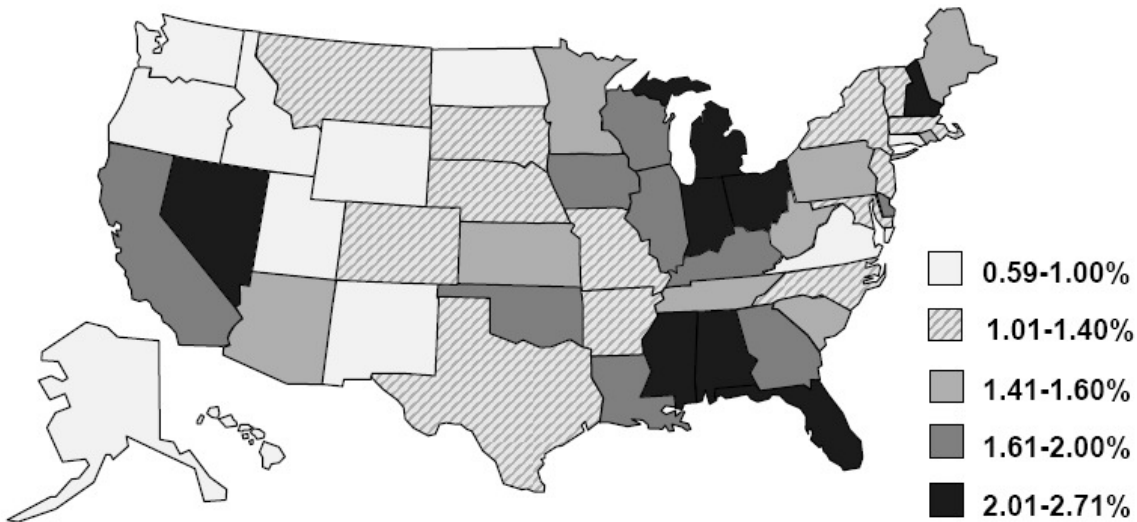
Source: Mortgage Bankers Association, National Delinquency Survey, Fourth Quarter 2007

Meanwhile, there are numerous foreclosure hotspots in cities such as Detroit, Stockton, Las Vegas, Riverside, Sacramento, Cleveland, Denver, Atlanta, Los Angeles, Philadelphia, Chicago, Houston, Dallas, St. Louis, Baltimore and more.

Metropolitan Areas with Highest Foreclosure Rates in 2007				
Rank	Metropolitan Area	Foreclosure Filings: 2007	% of Households	% Change from 2006
1	DETROIT/LIVONIA/DEARBORN, MI	72,616	4.9	68
2	STOCKTON, CA	22,184	4.9	271
3	LAS VEGAS/PARADISE, NV	59,983	4.2	169
4	RIVERSIDE/SAN BERNARDINO, CA	102,506	3.8	186
5	SACRAMENTO, CA	49,532	3.2	273
6	CLEVELAND/LORAIN/ELYRIA/MENTOR, OH	49,071	3.0	112
7	BAKERSFIELD, CA	13,682	3.0	245
8	MIAMI, FL	51,662	2.7	106
9	DENVER/AURORA, CO	49,519	2.6	28
10	FORT LAUDERDALE, FL	45,367	2.6	110

Source: RealtyTrac.com

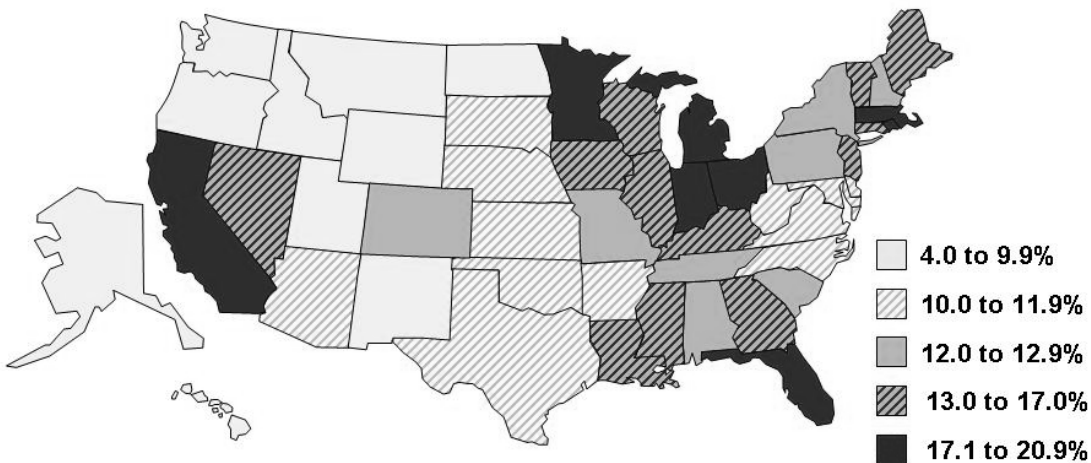
## Prime Delinquencies – Fourth Quarter 2007



**National = 1.67% Seriously Delinquent**  
**(90+ days delinquent or in foreclosure, prime conventional)**  
**Data as of December 2007**

Source: Mortgage Bankers Association

## Subprime Delinquencies as of Dec. 2007



**National = 14.44% Seriously Delinquent**  
**(90+ days delinquent or in foreclosure, Subprime Loans)**  
**Data as of December 2007**

Source: Mortgage Bankers Association

## The Impacts of Foreclosure

Foreclosures have severe, negative impacts on borrowers, damaging their ability to secure credit in the future. Concentration of foreclosed properties can also generate a vicious cycle of deterioration in small geographies and impose significant direct and indirect costs on communities.

*Foreclosures have devastating effects on families.*

Families in foreclosure not only lose their homes, security and stability, but also their home equity and their credit rating. It often takes years for a family to recover from a foreclosure. A study of families in foreclosures in Minneapolis in 1995 estimated that these families lost, on average, more than \$7,000 of home equity through the process.<sup>18</sup>

*Foreclosures have costly effects on communities.*

According to a 2005 study by William Apgar and Mark Duda, the foreclosure of a single-family home, especially one that leaves the home vacant and unsecured, may generate direct municipal costs on cash-strapped public agencies in excess of \$30,000 per property.<sup>19</sup>

In addition, area homeowners, business owners, and landlords stand to lose if a rash of foreclosures brings down property values, accelerating the decline of an entire neighborhood. These are called the “contagion effects” of foreclosure. A study by Dan Immergluck and Geoff Smith suggests that a nearby foreclosure could reduce a home’s value by 0.9 percent.<sup>20</sup>

As the economy and housing market conditions continue to weaken across the country, many industry experts predict that foreclosure rates will continue to rise over the next two or more years. The CRL recently predicted that 2,258,457 homes will be lost through foreclosure in 2008 and 2009 alone.<sup>21</sup> CRL suggests that each foreclosure has negative effects on the surrounding neighborhood, reducing values of surrounding houses by almost \$9,000 per home. CRL calculates the total potential decrease in home values and tax base across the nation to be \$356 billion unless significant action is taken to address these projected foreclosures.

*Foreclosures can ripple through the national and global economy.*

Recent studies by CRL, Moody’s and others suggest that total foreclosures could range up to three million in the next few years. “The problems are also spilling over into other sectors, with delinquencies rising for credit cards, auto and student loans,” writes Ruth Simon in the *Wall Street Journal*. “A record \$715 billion of consumer debt is now in delinquency or default according to Equifax and Moody’s Economy.com, up from nearly \$300 billion three years ago.”<sup>22</sup>

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<sup>18</sup> Anna Moreno, “The Cost of Mortgage Foreclosure Prevention.” Minneapolis: Family Housing Fund, 1995.

<sup>19</sup> “Collateral Damage: The Municipal Impact of Today’s Mortgage Foreclosure Boom.” Homeownership Preservation Foundation. May 2005. [www.hpfonline.org](http://www.hpfonline.org).

<sup>20</sup> “The External Costs of Foreclosure: The Impact of Single Family Mortgage Foreclosures on Property Values,” Housing Policy Debate, Volume 17, Issue 1.

<sup>21</sup> “Subprime Spillover.” Center for Responsible Lending. January 18, 2008.

<sup>22</sup> *Wall Street Journal*. April 10, 2008.



If even a portion of these loans fail, the effects on the nation's communities and the broader economy could be devastating. In an already weakened economy, the last thing the nation needs is a spiking foreclosure rate, more vacant inventory thrown into the housing market, and the negative spin-off on consumers' confidence.

### The High Cost of Foreclosures <sup>23</sup>

Stakeholders	Estimated Cost per Foreclosure	Source/Basis:
Homeowner	\$7,200	Anna Moreno, "The Cost of Mortgage Foreclosure Prevention." Minneapolis: Family Housing Fund, 1995
Lender/Servicer	\$50,000	Desiree Hatcher, "Foreclosure Alternatives: A Case for Preserving Homeownership." <i>Profitwise News and Views</i> , February 2006
Local Government	\$19,227	Estimate assumes property is abandoned before foreclosure is completed. William C. Apgar and Mark Duda, "Collateral Damage The Municipal Impact of Today's Foreclosure Boom." Homeownership Preservation Foundation, May 2005.
Adjacent Neighbors' Home Values	\$3,016	Assumes two adjacent homes each experiencing a 0.9 percent home-price depreciation based on the national median home price of \$167,500 as of 2005. Census Bureau, 2005 American Community Survey. Dan Immergluck and Geoff Smith, "The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values." <i>Housing Policy Debate</i> , 17(1).
Estimated Total Cost of Foreclosures	\$79,443	

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<sup>23</sup> "Sheltering Neighborhoods from the Subprime Foreclosure Storm," Special Report from the Joint Economic Committee. April 2007.

## Recent Developments<sup>24</sup>

### Hope Now Alliance

The Hope Now Alliance is a national collaboration of foreclosure intervention counselors, lenders, investors and other mortgage market participants announced in October 2007. Key members of the Hope Now Alliance consist of 27 mortgage servicers (representing 90 percent of the subprime lending market) and nonprofits such as NeighborWorks America, the Homeownership Preservation Foundation, and the Housing Partnership Network. The Alliance, which is dedicated to reaching more homeowners facing foreclosure through coordinated national public awareness efforts and local homeowner outreach events, has been supported by President Bush, Treasury Secretary Paulson, the U.S. Department of Housing and Urban Development (HUD), and many members of Congress.

With a goal of accelerating contact and relief for homeowners, Hope Now Alliance members agree to:

- Attempt to contact at-risk borrowers 120 days (or less) prior to the initial Adjustable Rate Mortgage (ARM) reset on all 2/28 and 3/27 loan products (see appendix for descriptions);
- Inform borrowers of the potential increase in payment and terms of the loan;
- Establish a single port of entry for all participating nonprofit counselors to use; and
- Make available dedicated e-mail and fax connections to support counselor and consumer contacts.

Two cornerstones of the Alliance are the national hotline, 888-995-HOPE, operated by the Homeownership Preservation Foundation and the related national Ad Council public service campaign, overseen by NeighborWorks America. The campaign and the hotline directly connect homeowners with trained counselors at nonprofit counseling agencies that have been certified by HUD. This counseling service is free to homeowners and currently fields more than 4,000 homeowner calls daily. Currently 450 counselors provide direct financial advice, facilitate communication and solutions with servicers, and refer homeowners to local community resources.

A key development heavily touted by Hope Now is a loan modification framework created by the American Securitization Forum (ASF), which allows servicers to more easily modify certain adjustable rate loans securitized in the secondary market. Hope Now members have been using the ASF framework to refinance or modify terms for qualified mortgages originated between July 1, 2005 and July 31, 2007 that are scheduled to reset between January 1, 2008 and July 31, 2010. Although the effort is voluntary and the framework has a complex set of qualification criteria, relief is being offered with significant interest-rate reductions and/or freezing of adjustable rates for up to five years, and thus preventing payment increases.

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<sup>24</sup> Responses to the foreclosure crisis have created a rapidly changing landscape of local, regional and national efforts. This briefing paper was written in May 2008 and attempts to highlight those efforts underway up until that time.

This framework was announced December 6, 2007. Prior to this, Hope Now servicers indicated that loan modifications, often the most powerful tool to help a homeowner remain in a home at an affordable payment, were outcomes in just 15 percent of cases. These same servicers reported a 19 percent increase in the frequency of a loan modification as a solution after the ASF framework was announced. Specifically for subprime loans, modifications increased to nearly 50 percent of loan workouts in January 2008. Also of note, nearly three times as many homeowners received a loan workout (including repayment plans, forbearance, loan modifications, etc.) compared to the number of completed foreclosure sales. [Refer to Appendix D, page 37, for a further explanation of these workout options.]

As impressive as these trends are, only 278,000 homeowners received a loan modification from their Hope Now servicers between July 1, 2007, and January 31, 2008. Critics say that although the ASF framework and the efforts of Hope Now are helping some homeowners, many of the most troubled homeowners do not meet the qualification criteria, still have limited options to avoid foreclosure and thus, remain at risk.<sup>25</sup>

As of April 1, 2008 all Hope Now servicers have also adopted the principles of Project Lifeline, which is an effort to reach their most at-risk borrowers (90-day plus delinquencies). Project Lifeline essentially offers a 30-day “pause” in the foreclosure process, allowing more time to review the homeowner’s financials, communicate with a counselor, and possibly negotiate a loan modification.

### **National Foreclosure Mitigation Counseling Program**

This \$180-million program was initiated in December 2007 with funds appropriated by Congress to increase the availability and quality of foreclosure counseling services across the country. The funding was administered by NeighborWorks America to support foreclosure counseling services as well as to train foreclosure counselors through national and regional training events in partnership with other national, regional and state agencies.

On February 26, 2008, NeighborWorks America announced \$130 million in funding awards to 32 State Housing Finance Agencies (HFAs), 16 HUD-approved Housing Counseling Intermediaries, and 82 community-based NeighborWorks organizations, to provide counseling to families and individuals facing the threat of foreclosure. NeighborWorks America estimates that 350,000 to 400,000 families will be directly assisted through these grant funds, which support nonprofit homeowner outreach and counseling programs.

All funds must be spent by the end of 2008, thus accelerating the national response in the midst of the crisis. It is important to note that these federal funds are narrowly prescribed, as well, only covering direct provision of counseling services—and not being made available to build long-term counseling capacity. This is important because local nonprofits will need the support of other funders to invest in building long-term counseling capacity.

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<sup>25</sup> A recent report from CRL suggested that only 150,000 borrowers would qualify for assistance, given the narrow guidelines suggested by Treasury and the Hope Now Alliance.

### **FHA Secure**

A new FHA loan program was launched August 31, 2007, with the support of President Bush. At that time, FHA projected the loan program would help about 250,000 homeowners through 2008. FHA Secure provides foreclosure relief specifically for homeowners affected by rising interest rates on adjustable rate loans, by offering a new, federally-insured loan at a lower fixed rate. Some of the qualification criteria include steady payment history prior to any rate reset on the existing mortgage and meeting FHA guidelines for loan-to-value (with a maximum of 97 percent).

Previously, FHA loan limits prevented many homeowners from qualifying for FHA Secure in high-cost housing markets. However, effective March 6, 2008, HUD temporarily raised the FHA loan limit from \$271,050 to \$729,750, in order to expand the reach of FHA products into more expensive housing markets, many of which are experiencing severe foreclosure problems.

However, current underwriting guidelines continue to limit the impact of FHA Secure. Reports vary widely on how many homeowners have qualified and received an FHA Secure loan. Some say only a few thousand loans have closed, but FHA reported February 1, 2008, that it has been able to assist more than 76,000 Americans to date and projects a total of 300,000 will qualify by the end of the year. Regardless, in light of the escalating foreclosure crisis, it is clear that the number of borrowers helped by FHA Secure is small compared to the millions of homeowners with adjustable rate mortgages that are, or soon will become, unaffordable and thus face the threat of foreclosure.

The program, as currently designed, is set to expire at the end of 2008. Various proposals being considered by Congress (highlighted later in this report) include a significant expansion of this FHA loan program, through loosening of underwriting guidelines and other changes, potentially allowing more homeowners in distress to qualify.

A little-known cost of foreclosure is the tax implication for homeowners who lose their homes. Debt that is forgiven in the foreclosure process is customarily treated as income by the Internal Revenue Service (IRS). The *Mortgage Debt Relief Act*, signed into law in December 2007, helps address this issue. This law provides an exception (available for the 2007, 2008, and 2009 tax years) that allows debt forgiveness on home loans by helping families already unable to meet their mortgage obligations to avoid incurring large income tax bills. The Act amends the IRS code to exclude from gross income amounts attributed to a discharge of indebtedness incurred to acquire a principle residence.

Although this change to the IRS code does not directly reduce the number of foreclosures, it does provide some relief to homeowners who were foreclosed, or who were forced to sell their home for less than the full loan balance. Additionally, this provision protects the homeowner from a possible income tax liability if the servicer forgives some of the principal loan balance in a loan modification, a practice that may be increasingly common in depreciating housing markets.

## State-Sponsored Foreclosure Intervention Programs<sup>26</sup>

States across the country have been actively responding to the needs of their citizens, developing programs and passing legislation to address the crisis. As the impact of foreclosures continues to grow, the number of states responding formally, as well as the depth of their response and intervention, continues to increase. Many governors and state-led task forces are exploring options for keeping families in their homes, but also for dealing with recovery and rebuilding efforts to stabilize communities severely hit by large-scale foreclosure losses.

Many states have implemented organized multifaceted responses, as well as approved new legislation designed to deal with the impacts of foreclosure in their communities. Although the responses vary greatly between states, and continue to evolve daily with many state legislative bodies currently in session, the solutions being deployed generally fall into one of four categories: prevention, intervention, financing and stabilization.

### Prevention Strategies

At least 30 states have taken action to stop practices that have contributed to the current crisis, by reducing the number of high-risk and predatory loans originated through stricter regulation of mortgage products and the origination process as well as better consumer education. By banning common predatory practices and adopting regulatory guidelines for subprime and nontraditional mortgage products, states expect to limit the number of homeowners being placed into high-risk or even illegal loans. Some states have tightened regulation of mortgage brokers and/or loan originators. Other states have substantially increased criminal penalties for mortgage fraud by enforcing existing lending laws, increasing funding for supervision, and pursuing violators. Several examples of new state legislation are listed below.

#### *Massachusetts*

In November 2007, Massachusetts Governor Deval Patrick signed a new law that provides the Division of Banks (DOB) with \$3 million to increase regulation of the state's mortgage lending industry and to maintain a detailed database of the state's foreclosures. The DOB will also provide \$2 million in grants to fund first-time homebuyer counseling and create ten regional foreclosure prevention centers.

Mortgage loan originators, including nonprofit lenders, are required to be licensed. Lenders will be rated on their ability to assist low- and moderate-income residents, ensuring that rates and terms for such applicants are consistent with similar applicants. Inability to receive positive ratings under this monitoring system may result in denial of a license by the DOB. In order to be licensed by the DOB, the originator must pass a background check, take a residential mortgage lending course, and complete eight hours of continuing education requirements every three years.

#### *Minnesota*

In May 2007, Minnesota Governor Tim Pawlenty signed a law to strengthen consumer protections against predatory lending practices. The legislation gives borrowers recourse to bring

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<sup>26</sup> Based on research in "Defaulting on the Dream: States Respond to America's Foreclosure Crisis" by the Pew Charitable Trust. April 2008. [www.pewtrusts.org](http://www.pewtrusts.org). "State Policy Responses to Foreclosure: 2008." PolicyLab Consulting Group, LLC. Pew Center on the States. Also, "State Strategies to Address Foreclosures," by the National Governors Association. September 19, 2007. [www.nga.org/Files/pdf/0709foreclosures.pdf](http://www.nga.org/Files/pdf/0709foreclosures.pdf).

lawsuits against predatory lenders and collect attorney's fees if they win their suit. Specific provisions of the bill require lenders to originate adjustable loans only if the borrower can afford the future adjusted payments.

### **Intervention Strategies**

Many states have strengthened support for direct help to homeowners through various counseling and education efforts. Research and experience both show that even after foreclosure proceedings have begun, foreclosures can often be averted. However, most homeowners in distress are unaware of the options available to them. Many states have taken steps to expand awareness of those available options and to connect homeowners to local or national counseling services. In addition to counseling, some states are taking actions to protect consumers from foreclosure "rescue" scams<sup>27</sup> and passing laws that slow the foreclosure process, allowing more time for homeowners to recover or sell their home at fair market value. Examples include:

#### *Minnesota*

The Minnesota Housing Finance Agency (MHFA), the Minnesota Home Ownership Center and 20 nonprofit agencies provide counseling and loan funds to prevent mortgage foreclosure as part of the Foreclosure Prevention Assistance Program (FPAP). In late 2007, with the support of state funding, these agencies were able to increase the number of foreclosure counselors in the state from 23 to 40. Subsequently, national grant funds increased the number of available counselors to 77. Delinquent homeowners receive financial and debt-management counseling, help negotiating with servicers, and, in some cases, access to zero percent emergency loans for up to \$5,500 to bring the mortgage current or to help the homeowner qualify for an affordable loan workout.

#### *Illinois*

Illinois passed the Mortgage Rescue Fraud Act in June 2006 to protect troubled borrowers from fraudulent foreclosure rescue scams. The law requires that any person who seeks to assist a homeowner at risk of foreclosure fully disclose in writing the terms and associated costs of the service, and a right of rescission. The law also gives troubled homeowners the option to cancel services with a mortgage rescuer at any time. Any sale completed through a rescue service must be close to the home's appraised value and violators are subject to criminal liability.

#### *Ohio*

Ohio Governor Ted Strickland announced that nine subprime servicers had agreed to a "Compact to Help Ohioans Preserve Homeownership" on April 7, 2008. Among other provisions, loan servicers agreed to: a) engage in large-scale loan modification efforts for homeowners; b) create incentives for staff and foreclosure departments to modify loans rather than foreclose; and c) report progress on these efforts to the Ohio Department of Commerce until June 30, 2009.

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<sup>27</sup> The rise in foreclosures has also created new businesses that prey on stressed-out borrowers facing foreclosure. These predatory businesses often masquerade as nonprofit credit counseling agencies offering to help troubled borrowers. Instead, these organizations typically extract large payments from unwitting borrowers in distress or find ways to take possession of their homes in exchange for providing little or no valuable services.



## **Financing Strategies**

Many states are creating both refinance and rescue “bridge” loan programs, intended to help homeowners recover and continue to pay their existing mortgage, or to qualify for state-sponsored refinance products at affordable fixed rates. Although the reach of such funds is limited, and many homeowners are having trouble meeting underwriting guidelines due to the condition of their credit, unstable income, or declining equity position, several states have achieved some success. Several examples include:

### *Ohio*

Ohio launched the “Opportunity Loan Refinance Program” in April 2007 to help borrowers refinance high-cost subprime loans. The loan program allows lenders to originate fixed-rate loans for eligible borrowers that are purchased by the Ohio Housing Finance Agency (OHFA) using taxable bonds. To fund the program, \$100 million in taxable bonds were allocated. Implementing a recommendation by the Ohio Foreclosure Prevention Task force, OHFA expanded its underwriting criteria for the loan program in September 2007 to allow more homeowners to qualify. Unfortunately, due to strict underwriting criteria, the number of refinance loans approved for this program has been very low to date.

### *New York*

New York’s “Keep the Dream Alive” program was launched in July 2007. With \$100 million available to help families refinance out of high-risk loans, the State of New York Mortgage Agency (SONYMA) intends to help families transition into affordable, low-interest loans that will increase the likelihood of avoiding foreclosure. Those with interest-only, adjustable rate, or other unconventional loan terms are being targeted for the program. Borrowers must receive homeownership counseling from approved housing counseling agencies prior to loan approval. As in Ohio, critics initially felt not enough homeowners would meet the underwriting guidelines. Thus, in December 2007, eligibility was expanded to: 1) include owners of two-, three- and four-family homes in addition to single-family homes, condos and co-ops; and 2) allow lower FICO credit scores. Nonetheless, as of April 2008, less than five loans have been approved through the “Keep the Dream Alive” program according to state officials.

### *Massachusetts*

MassHousing’s HomeSaver Foreclosure Prevention Program in Massachusetts is now offering \$250 million in fixed-interest rate refinancing loans and counseling services to struggling subprime borrowers. The program is privately financed through a \$190 million commitment from Fannie Mae and a \$60 million contribution from MassHousing. Among other qualifying criteria, counseling is mandatory and a homeowner cannot be more than 60 days late on their current mortgage payment. Once again, according to state officials, few loans have been approved to date due to strict underwriting criteria and declining home values.

## **Stabilization Strategies**

Stabilization programs are designed to mitigate the harm of vacant foreclosed homes by facilitating the process of rehabilitating those homes and returning them to the affordable housing market. Although this area of work is less developed than other strategies, some states are taking a leadership role in helping city and nonprofit leaders develop programs in areas of high foreclosure in order to stabilize affected neighborhoods in the wake of the crisis.

### *Massachusetts*

In October 2007, Governor Patrick announced a Neighborhood Stabilization Pilot Program launched in the cities of Lawrence, Boston, Brockton, New Bedford, Springfield and Worcester. The Department of Housing and Community Development, working with lenders and nonprofits, will seek to reclaim foreclosed properties and make them available to qualified first-time homebuyers with the goal of restoring neighborhoods to fully occupied status as quickly as possible.

Additionally, the Massachusetts plan calls for participating lenders to provide moving expenses and first and last month's rent to eligible homeowners who have lost their homes to foreclosure. Eligible homeowners include those in an owner-occupied home with a subprime adjustable-rate mortgage that originated in 2004, 2005, or 2006, who have been foreclosed on within four years after the loan closing. Homeowners must also work with an approved housing counselor, fully vacate the property within 30 days of foreclosure, and leave it in habitable condition.

## Federal Proposals to Address the Mortgage Crisis<sup>28-29</sup>

### U.S. Congress

After months of bipartisan debate and disagreement on the nature and extent of any federal intervention into the current housing and mortgage crisis, a comprehensive bill appears to have secured momentum and Senate support from both Democrats and Republicans. Although lingering differences between the House and Senate versions of the bill need to be ironed out before final passage, a bipartisan \$15 billion housing relief package could go for a final vote in the spring of 2008. Election year pressures, as well as the ripple effect the housing market and general credit crunch are having on the overall economy, have motivated both parties to compromise on several key issues. Additionally, there is broad consensus that it pays to prevent foreclosures. When costs to homeowners, loan servicers, investors, lenders, neighbors, and local governments are added up, every home foreclosure can cost stakeholders more than \$80,000.

The current Senate bill contains the following key provisions to address the housing crisis:

#### *Homeowner Intervention Provisions*

1. **Modernize FHA:** The bill would change the FHA's insured loan program, which can help homeowners with adjustable rate loans refinance into a fixed rate FHA product. The bill would raise the FHA loan limits to 110 percent (from 95 percent) of the median home price, with a dollar cap of \$550,000. The old loan limit was \$271,050, preventing most homeowners in higher-cost markets from considering an FHA product. The Senate version of the bill requires an increase in required down payment funds from 3 percent to 3.5 percent, although the House may not support this increase.
2. **Mortgage Revenue Bonds for State Housing Finance Agencies:** The bill permits states to create \$10 billion in tax-free municipal bonds, which would be used for loan products to refinance subprime homeowners into lower, fixed-rate mortgages. Under current law, tax-free bonds can be used only for first-time homebuyer loan programs or to support redevelopment in target areas.
3. **Additional Funding for Foreclosure Counselors:** The current bill calls for an additional \$100 million to support the nonprofit housing counselors who work with homeowners in default across the country. Currently counseling organizations, typically overseen through national HUD intermediaries or state housing finance agencies, are overwhelmed by homeowners seeking assistance. The additional funds would provide services to several hundred thousand more homeowners in trouble.
4. **Clearer Disclosures:** The bill may include guidelines or regulations for improved disclosures during the loan application process, so consumers can better understand the documents they are signing, including simple explanations of potential payment increases in adjustable-rate mortgages.

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<sup>28</sup> Partially based on research from "Addressing the Foreclosure Crisis: State and Federal Initiatives in Massachusetts." Citizens' Housing and Planning Association (CHAPA) Briefing Paper. March 2008.

<sup>29</sup> Responses to the foreclosure crisis have created a rapidly changing landscape of local, regional and national efforts. This briefing paper was written in May 2008 and attempts to highlight those efforts underway up until that time.

### *Tax Relief Provisions:*

1. **Property Tax Deduction for Homeowners:** For the 28 million homeowners who take the standard deduction each year, the proposed bill would permit a new property tax deduction of \$500 for single filers and \$1,000 for couples. Currently only homeowners who itemize can deduct their property taxes from their taxable income.
2. **Tax Credits for Buyers of Distressed Homes:** A new tax credit of up to \$7,000 would be provided to buyers of properties in default or foreclosure. This incentive is intended to be a catalyst for the housing market.
3. **Tax Breaks for Homebuilders:** The most controversial piece of the bill contains an expansion of when the net operating losses are applied to corporate tax bills. The proposed legislation would extend to four years (from two years) the time a homebuilder may apply its 2008 and 2009 losses to past tax bills. Supporters say it will keep homebuilders of all sizes operational during this downturn, thus preserving thousands of construction-related jobs.

### **What's Being Left Out?**

Critics of the Senate bill argue it does more for businesses and lenders than for homeowners. The House bill will likely differ significantly on several key points and place more emphasis on funding directed to help defaulting homeowners in more direct ways.

Several key items proposed by leading Democrats are currently not included in the Senate bill. These include a measure that would allow bankruptcy judges to reduce the principal balances on home mortgages for homeowners in bankruptcy. This provision is supported by housing advocates, who say it could keep up to 600,000 homeowners out of foreclosure.<sup>30</sup> Supporters also claim it would not encourage more homeowners to file for bankruptcy, but rather create an added incentive for lenders and servicers to modify the terms of more distressed, subprime mortgages. Opponents argue that the provision would actually raise mortgage interest rates as lenders would price products higher to account for the chance that a third party (the bankruptcy courts) may change interest rates or forgive principal. One possible compromise being considered is allowing bankruptcy courts to only reduce the interest rate on the mortgage, but not reduce the loan balance.

Another provision missing from the proposed bill, but still being considered, would allow the FHA to insure up to \$600 billion in troubled loans, if lenders and investors agreed to reduce loan balances. The intent of this plan would be to make the mortgages more affordable (due to lower principal balances and fixed-interest rates) to homeowners and then insure them through FHA. This also allows the lenders and servicers to unload poorly performing loans from their portfolios. One version of the proposal offered by Financial Services Committee chair Barney Frank (D-MA) would require mortgage investors and lenders to write-down the loan balance to qualify for having their loans prepaid by the government. The FHA would guarantee the existing lender no more than 85 percent of the property's current value. In turn, the FHA would require

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<sup>30</sup> Congressional testimony by the Center for Responsible Lending. [www.responsiblelending.org/policy/congress](http://www.responsiblelending.org/policy/congress)

that the mortgage to the homeowner be set at 90 percent of the appraised value, leaving 5 percent for FHA to help protect against losses.

Supporters say this plan is good for all parties. Homeowners would have a better chance of remaining in their homes with lower monthly mortgage payments due to more reasonable, fixed-interest rates, as well as having a stronger equity position in their homes because of less overall mortgage debt. Cities would not see as much potential damage and tax revenue loss from the negative impacts of foreclosure. Housing prices would stabilize as the overall housing market and economy began to recover. Although lenders take a loss, the losses may be lower than if homes went into foreclosure, which can result in losses of 50 percent or more of the outstanding mortgage. Opponents to such a plan argue it will only prolong the “credit crunch” and could delay a revival in the housing market.

### **Current Proposals of the Presidential Candidates**

All three presidential candidates (Clinton, McCain and Obama) have formally offered their own solutions and proposals for the housing and mortgage crisis. Although these plans vary in detail and focus, each of them would likely be reshaped if the current proposal being considered by Congress passes. Proposals from Clinton (previous to her exit from the presidential race) and Obama contain many of the same key elements. What follows is a brief summation of the key points of each candidate.

#### *Senator Hillary Clinton (D-NY)*

Senator Clinton outlined a four-step plan to address the negative impacts of foreclosure on homeowners and other stakeholders. Aside from supporting the (previously reviewed) legislation proposed by Rep. Barney Frank and Senator Christopher Dodd (D-CT), Senator Clinton supports the creation of an Emergency Working Group on Foreclosures composed of non-partisan economic leaders. This group would recommend ways that FHA and other government-sponsored enterprises could best be used to address the problem.

Senator Clinton’s plan also called for a 90-day moratorium on foreclosures back in December 2007. It is unclear if she would have asked for a similar moratorium if she were elected president. She also proposed a new housing stimulus package to provide \$30 billion directly to states and localities hardest hit by the housing and subprime crisis. The funds could be used to purchase distressed properties that cities and states could then convert to affordable rental housing or resell to low-income families, as well as to provide additional funding for consumer counseling. The final piece of her plan would involve new legislation to provide mortgage companies with protection, when they modify terms of distressed mortgages, against lawsuits by the investment banks, private equity firms and other investors in these mortgages.

*Senator John McCain (R-AZ)*

Senator McCain has also outlined his proposed solution to the housing and credit situation. He restated his belief that the blame for the current crisis rests in four areas:

1. Housing investors who overwhelmed normal market forces with rampant speculation.
2. Lenders who became complacent because of rising home prices and consequently failed to maintain their lending standards.
3. The explosion of complex financial instruments that were not well understood by most investors.
4. A crisis of confidence arising from recent losses that has caused banks to no longer trust each other and for credit to dry up.

Senator McCain has said that no assistance should be given to speculators and that any aid given should be limited to homeowners (and only their primary residences), must be temporary, and must not reward people who were irresponsible at the expense of those who were not.

His most specific proposals include:

1. Reforms to the system including increased transparency and accountability. Homeowners should be able to easily understand the terms of their mortgages and, in return, should provide truthful financial information in loan documents and be subject to a penalty if they do not.
2. Lenders should be held accountable for the quality and performance of those loans and strict standards should be required in the lending process.
3. The down payment requirements for FHA mortgages should be raised.
4. Financial institutions should be encouraged to increase capital reserves to serve as a buffer against losses by removing regulatory, accounting and tax impediments to raising capital.

*Senator Barack Obama (D-IL)*

Senator Obama's plan to address the housing and foreclosure crisis includes three major components: 1) Modernizing the financial regulatory system; 2) Helping homeowners facing foreclosure and easing the credit crunch; and 3) enacting a second \$30 billion stimulus package specific to the mortgage crisis, including \$10 billion for a foreclosure prevention fund to help Americans keep their homes.

**Modernizing the Financial Regulatory System**

Obama's plan would accomplish this by using a variety of reform principles, including:

1. Provide the Federal Reserve with basic supervisory authority over any financial institution to which it makes credit available as a lender of last resort.
2. Capital, liquidity and disclosure requirements should be developed and strengthened for all financial institutions, along with examination and reform of credit rating companies.
3. The system must be simplified and be capable of identifying where risks reside in the system.



### **Helping Homeowners Facing Foreclosure and Easing the Credit Crunch**

Senator Obama's plan offers numerous options to assist homeowners. In most aspects, his plan is similar in design to the plan of Rep. Frank and Senator Dodd currently being considered by Congress.

### **Mortgage Crisis Stimulus Package**

The first \$10 billion of Obama's stimulus proposed package is targeted toward increasing counseling resources and providing low-income homeowners additional time and support to pay back any losses from the sale of their home. The package would also allow the federal government to partner with state governments, local organizations, and lenders to ensure that loan modifications can be made in a timely manner and thus reduce foreclosures or bankruptcies.

A second \$10 billion would be used to assist state and local governments that are facing revenue shortfalls because of the housing crisis and economy. This fund would help limit the need for governments to reduce critical public services and infrastructure spending due to declining property tax revenues.

Finally, Senator Obama's plan calls for an extension of unemployment benefits to workers who have exhausted their current eligibility and extend eligibility to more workers, including many part-time and other workers, who are not currently included in the system.

## Case Studies of Foreclosure Intervention Programs

Innovations for preventing foreclosures are being developed and tested in many communities. The strongest initiatives involve collaborations of public, private and nonprofit institutions. Here are some examples of these collaborations.

### *The Home Ownership Preservation Initiative in Chicago*

Significant work on this issue was pioneered by Neighborhood Housing Services of Chicago (NHS of Chicago) starting in 2003. NHS of Chicago, in partnership with the city of Chicago and leading mortgage lending and servicing institutions, piloted a new model for homeownership preservation activities. Facing a rising number of both conventional and subprime foreclosures concentrated in low-income and minority neighborhoods, NHS of Chicago developed the Home Ownership Preservation Initiative (HOPI). The HOPI partners are working to help homeowners avoid foreclosures with innovative outreach efforts, delinquency counseling, loss mitigation and loan workouts. Through this effort, NHS of Chicago has helped more than 1,300 families throughout the past three years to preserve homeownership. When foreclosure is unavoidable, the partners seek to preserve the properties as neighborhood assets. Innovations coming out of HOPI include a city-run 311 hotline to connect troubled borrowers to phone counseling; research on foreclosure-related issues; and an advisory committee with industry-led workgroups investigating further innovations.

### *National HOPE Hotline for Troubled Borrowers*

The Homeownership Preservation Foundation, a Minneapolis-based national nonprofit dedicated to preserving homeownership and preventing home foreclosures, operates the national HOPE Hotline at 888-995-HOPE. This toll-free hotline offers free foreclosure-prevention counseling to troubled borrowers. The telephone-based counselors working on the HOPE Hotline are available 24 hours a day and seven days a week. More than 450 counselors provide services for the HOPE Hotline in English and Spanish. The counselors work for five nonprofit agencies, all of which are HUD-certified. So far in 2008, the HOPE Hotline is receiving more than 4,000 calls a day from troubled homeowners. Twenty-five percent of these calls resulted in workout plans to help the families avoid foreclosure. The telephone counselors also make referrals to local counselors for face-to-face follow-up counseling services. The HOPE hotline has proven to be very cost-effective in reaching consumers who might otherwise ignore their mortgage delinquency problems until it's too late.

### *The NeighborWorks® Center for Foreclosure Solutions*

The NeighborWorks® Center for Foreclosure Solutions (CFS), an initiative of NeighborWorks® America, was created in 2005 to preserve homeownership in the face of rising foreclosure rates. In conjunction with key partners, including other nonprofit organizations, foundations, mortgage and insurance partners, the center builds capacity among foreclosure counselors around the nation, conducts public outreach campaigns to reach struggling homeowners, and researches local and national trends to develop strategic solutions. In cities and states with high rates of foreclosure, the center works with local leaders and nonprofit organizations to create sustainable foreclosure-intervention programs.

### *Ad Council Campaign on Foreclosure Prevention*

As part of its outreach efforts, in June 2007 NeighborWorks® America launched a national foreclosure-prevention advertising campaign in partnership with the Ad Council and many other industry partners. The campaign directs struggling borrowers to call the HOPE hotline, where they will receive high-quality counseling and be connected with their lender or a local foreclosure counselor. The campaign includes TV, radio, newspaper, magazine, Web and outdoor advertising. Marketing material templates are available to local organizations to use and co-brand. The campaign was launched nationally in June 2007 with a special focus on areas with high rates of foreclosure. To date, 24 business partners have provided financial support to this campaign.

### *ACORN's Efforts on Negotiating Loan Modifications*

According to ACORN's Director of Housing Counseling Bruce Dorpalen, "ACORN Housing is working with 36 mortgage servicers, prime and subprime, to negotiate loan workouts and payment agreements." ACORN has teams of community workers visiting people facing foreclosure in Ohio, Michigan, Texas and Louisiana, and connecting them to counselors or directly to their lenders. Team members try to negotiate affordable loan modifications, because many of their clients cannot qualify for refinances of their mortgages. In addition, continues Dorpalen, "ACORN and ACORN Housing have been working with servicers to set up best practices which reduce foreclosures, preserve the wealth of low- and moderate-income homeowners, and curb predatory lending practices."

### *Early Intervention Foreclosure-Prevention Outreach and Workshops*

Some localities have had success developing and delivering foreclosure-prevention workshops in communities suffering high delinquency and foreclosure rates. These workshops have been most effective when delivered in cooperation with lenders who help provide targeted outreach to consumers in the early stages of delinquency. In Chicago, these workshops have also been used with borrowers with ARMs to help provide them with advance information about the potential effect on their mortgage payment after an interest-rate reset occurs. In a more advanced version of this strategy, Consumer Credit Counseling Service of San Francisco (CCCS-SF) and Self-Help Credit Union have had great success providing early-intervention, telephone-based counseling to new borrowers to prepare them for the responsibilities of homeownership and to stress the importance of making timely mortgage payments.

### *A Statewide Foreclosure-Prevention Initiative in Ohio*

For the past six years, the state of Ohio has had one of the highest foreclosure rates in the country causing untold harm to families and communities across the state. Starting in 2005, nonprofit organizations in Ohio formed a statewide coalition to share best practices, align efforts and leverage their strategic partnerships to achieve a common goal of reducing foreclosures among low- and moderate-income families across Ohio. In 2006, the state Office of Housing and Community Partnerships funded this initiative with a three-year, \$3 million commitment to do statewide outreach to consumers, promote a 24/7 hotline for telephone-based counseling to consumers, expand local counseling services for foreclosure prevention, and offer small grants (up to \$3,000) to assist homeowners in foreclosure with "home rescue" funds. A statewide marketing effort was launched to promote the 888-995-HOPE hotline that provides free telephonic counseling to consumers facing foreclosures. This outreach campaign produced

10,488 calls to the HOPE Hotline from Ohio, with 3,102 callers completing telephonic counseling sessions. Over the past two years, the initiative assisted 3,972 families with foreclosure prevention counseling and 1,073 families were able to avoid foreclosure.

*Baltimore Homeownership Preservation Coalition*

The Baltimore Homeownership Preservation Coalition (BHPC) has 81 members representing 63 organizations, including banks, nonprofits, realtors, foundations, state and local public agencies. Four foundations—the Abell Foundation, the Annie E. Casey Foundation, the Goldseker Foundation, and the Baltimore Community Foundation—have taken leadership roles in this effort. BHCP has completed two studies of foreclosure trends; one in Baltimore (September 2006), and another throughout the state of Maryland (February 2008). In addition, the coalition launched a public awareness “Every Minute Counts” campaign in September 2006 and a second outreach effort with the theme “Mortgage Late? Don’t Wait!” The campaign included ads on radio stations, billboards and buses. BHPC was also able to attract \$1 million in funding for local nonprofits to expand their foreclosure counseling services in 2007.

*The Minnesota Homeownership Center*

Founded in 1993 and expanded statewide in 2001, the Minnesota Homeownership Center promotes sustainable homeownership services to low- and moderate-income households across Minnesota. Founding partners includes regional foundations, real estate and mortgage finance institutions, government agencies and other organizations concerned with affordable and sustainable homeownership. The center provides training, technical assistance and financial support to more than 20 community-based organizations for direct services to consumers. Funding sources include the Minnesota Housing Finance Agency, the Family Housing Fund and the Greater Minnesota Housing Fund. The center oversees a statewide marketing campaign and provides a user-friendly, interactive map on its website ([www.hocmn.org](http://www.hocmn.org)) that links consumers to its nonprofit agencies throughout the state for foreclosure prevention services. The center is testing a new triage tool to reduce the average time required for foreclosure counseling to less than five hours per case. In 2007, the center’s agencies counseled more than 4,450 families.

## Policy Recommendations

“In order to preserve scarce resources for the primary victims of the crisis, steps that directly or indirectly funnel bailout funds to the primary perpetrators of the crisis must be avoided,” cautions Michael D. Larson of Weiss Research, Inc., in his report to the Federal Reserve.<sup>31</sup> “We have the means to create an environment in which buying a home can once again be viewed as the American dream in the years ahead. What we need most is the wisdom and the will to make the needed sacrifices now.” Here are several policy recommendations to address the mortgage crisis:

1. *Enforce existing predatory lending laws, penalize egregious lenders and provide targeted help to victimized consumers.*

Aggressively prosecute lenders, brokers, appraisers, and other parties for fraud and/or abusive lending under existing laws. Lenders who have been involved in abusive lending tactics should be prosecuted and fined heavily. Any fines or settlements from these cases should be directed to help borrowers who have received unaffordable mortgages, support nonprofits to assist with loan modifications and provide foreclosure-prevention counseling, legal assistance and rescue funds for these victimized borrowers.

2. *Reform FHA and expand its refinancing offerings.*

The Federal Housing Administration (FHA) was marginalized during the last decade as subprime lending took over a huge piece of the market. FHA could offer more on the refinance side, as President Bush has proposed, by expanding its role in providing affordable mortgages to help troubled borrowers refinance onerous subprime loans.

3. *License all mortgage brokers and improve consumer disclosures.*

Given that the vast majority of home mortgages are now originated by mortgage brokers, and the inherent conflict of interest between brokers and borrowers, a national licensing system for mortgage brokers is desperately needed. J. Michael Collins, the principal researcher for PolicyLab Consulting Group, suggests that “individual brokers be licensed and their identity number needs to be on every loan for at least seven years (the average life of a loan). That way, they can be held accountable for seven years for any misrepresentation in the loan, not unlike tax preparers or other professionals.” In addition, consumer disclosures that are provided in loan applications and before closings need to be in simpler and more transparent language.

4. *Expand federal banking oversight to all lenders, including non-bank independent mortgage companies and extend CRA reviews to all lenders.*

To a great extent, non-regulated lenders manufactured this foreclosure crisis by originating loans with extraordinarily loose underwriting standards. Federal banking regulators need to step up and provide oversight of these lenders.

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<sup>31</sup> “How Federal Regulators, Lenders, and Wall Street Created America’s Housing Crisis.” Weiss Research. July 2007.

5. *Increase oversight of the secondary mortgage markets and the ratings agencies.*  
The mistakes of the mortgage securitization industry have created havoc in world financial markets and also cry out for greater oversight and regulation.
6. *Develop suitability requirements for the mortgage lending industry.*  
Establishing a suitability standard would require brokers and lenders to perform a more thorough evaluation of a borrower's finances and his or her ability to repay a mortgage. They would presumably think twice about putting borrowers into inappropriate and unaffordable mortgages if they knew those borrowers could sue for damages.
7. *Require that all borrowers be qualified based on their ability to pay the fully indexed, fully amortizing payment on any mortgage.*  
Many problematic types of mortgages in the current foreclosure crisis (such as interest-only loans, Option ARMs and 2/28s) had low initial "teaser rates." Risky borrowers were approved for these mortgages based on the low initial payments rather than on the basis of the potentially higher payment when the mortgages were reset.
8. *Require escrow accounts for taxes and insurance on subprime mortgages.*  
Many subprime borrowers got in trouble because they were qualified for risky loans without including the additional monthly cost of property insurance and taxes. Borrowers with low credit scores and high combined loan-to-value (CLTV) ratios (above 80% CLTV) should be required to have escrow accounts for taxes and insurance.
9. *Invest in early intervention of foreclosures.*  
Timely financial advice, credit counseling and assistance with loan modifications can make a huge impact in preventing foreclosures. The cost of this early intervention work is a small fraction of the cost of the negative consequences of foreclosures—for lenders, local economies and neighboring homeowners. According to a report by the Joint Economic Committee of U.S. Congress, "Foreclosures are costly—up to \$80,000 for all stakeholders combined... [while] estimates suggest that foreclosure prevention costs approximately \$3,300 per household."<sup>32</sup> In short, it pays to prevent foreclosures.
10. *Focus more resources on preparing future homeowners.*  
Funding should be dramatically increased to community groups to expand homeownership counseling and educational classes to encourage families to reduce their debts, increase their savings and become stronger financially *before* they become homeowners.
11. *Provide funding to plan and implement strategies to reuse vacant properties.*  
Experts are predicting up to 750,000 vacant properties across the nation due to foreclosures in the next few years. The negative impact of these vacancies on communities will be potentially devastating in terms of the lost market value and tax revenues unless quick action is taken. Funding is critical to begin planning and testing appropriate reuse strategies, which will vary based on community input and needs.

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<sup>32</sup> "Sheltering Neighborhoods from the Subprime Foreclosure Storm." Joint Economic Committee. April 2007.



## What Foundations Can Do

Foundations can play key roles in addressing the current foreclosure crisis, both in their communities and across the nation. These roles include:

- *Convene Coalitions to Focus on Foreclosure Solutions*

Foundations can be conveners of local, regional or national coalitions where lenders, servicers, government officials, policymakers, nonprofit advocates and other community leaders can discuss foreclosure-related issues. Bringing these diverse audiences together to focus on *solutions* to the foreclosure crisis is an important role that foundations can play. Foundations can also share “best practices” from other areas and in this way, come to the table with practical ideas.

For example, the Goldseker Foundation has long been active in addressing predatory lending issues in the Baltimore area. Therefore, as foreclosures began to surge the past few years, the foundation took a leadership role on this topic and helped convene local stakeholders. According to Goldseker Foundation Program Officer Laurie Latuda, “A coalition of public and private sector groups coalesced into the Baltimore Homeownership Preservation Coalition, which currently has 81 members representing 63 organizations, including banks, nonprofits, realtors, foundations, public officials, state and local government agencies. The coalition and its members have been on the forefront of finding short- and long-term solutions to the lending and foreclosure crisis for Baltimore and the state of Maryland. As a result, its impact on the foreclosure issue has been broad and far-reaching.” Among the coalition’s accomplishments are working with the City of Baltimore to adopt a six-point plan on foreclosure mitigation, actively participating in the Governor’s Task Force on Homeownership Preservation in Maryland in 2007, and helping to increase funding and professional certification training opportunities for local foreclosure counselors through NeighborWorks America.

The Kresge Foundation has been instrumental in helping address the foreclosure crisis in Detroit. Wendy Jackson, a program officer at Kresge, describes foreclosures in Detroit as “a deep and pervasive crisis with more than 25 percent of the city’s housing stock affected. The whole city is a ‘foreclosure hotspot.’ We are focusing on a comprehensive approach—by building community infrastructure—but it’s not just funding,” Jackson continues. “We serve as an active and aggressive convener and a broker for solutions in this arena.” The Kresge Foundation provided a significant leadership grant along with support from the Skillman Foundation, the Hudson-Webber Foundation, the McGregor Fund and the Community Foundation for Southeast Michigan to establish the “Office of Foreclosure Intervention and Response,” a public-private partnership that will coordinate and focus Detroit-area responses to the foreclosure crisis.

- *Fund Research on Foreclosures*

Foundations can help support research on foreclosure issues so stakeholders can gain better understandings about the causes, impacts of and mitigation strategies for foreclosures. Given the dramatic growth of foreclosures the past few years, many communities need to “size the problem” to understand the scale and identify “hot-spot locations” of local foreclosures before jumping to solutions.

The Pew Center on the States and Pew’s Health and Human Services Program recently released a report entitled, “*Defaulting on the Dream: States Respond to America’s Foreclosure Crisis*.” This report is a comprehensive look at all 50 states and their responses to the subprime mortgage crisis. “State lawmakers who have shown they understand the high stakes involved in the nation’s foreclosure crisis—including the impact on state and local economies—deserve a lot of credit,” said Susan K. Urahn, managing director of the Pew Center on the States. “We hope some of the promising practices highlighted in this report can inform federal efforts and inspire others to take action.”

The Goldseker Foundation and the Annie E. Casey Foundation have also been active in funding research of foreclosures in the City of Baltimore in 2006 and statewide in Maryland in 2008 to document “hot-spot locations” for foreclosures. “This research by The Reinvestment Fund gave us a better handle on the problem and highlighted some startling data in Prince George’s and Montgomery Counties,” notes Latuda of the Goldseker Foundation. The research projected 25,000 subprime mortgage foreclosures before the end of 2009 potentially causing “a \$2.73 billion loss in property-related wealth to Maryland residents and a \$19.1 million loss in property tax.”<sup>33</sup>

- *Support Outreach Efforts such as the 888-995-HOPE Hotline*

A Roper Survey funded by Freddie Mac in 2007 suggested that 57 percent of delinquent borrowers are unaware their lenders may offer alternatives to help them avoid foreclosure.<sup>34</sup> Stronger outreach is needed to overcome borrowers’ fears and lack of knowledge. So far in 2008, the national HOPE Hotline (888-995-HOPE) is reaching 4,000 troubled borrowers a day, providing them with immediate help from unbiased nonprofit counselors 24 hours a day, seven days a week. This remarkable hotline is free to consumers and is supported by the Homeownership Preservation Foundation ([www.995hope.org](http://www.995hope.org)) along with other partners. Foundations can extend the reach and impact of this effort by supporting this important hotline.

The Goldseker Foundation also supports outreach efforts in Baltimore with several citywide public education campaigns. The most recent campaign tagline, “Mortgage Late? Don’t Wait!,” uses billboards, flyers, brochures, postcards, bill stuffers, print and bus ads to encourage borrowers to call for help. This campaign has been so effective that it is being expanded to a statewide effort by the state of Maryland later this year.

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<sup>33</sup> “Mortgage Foreclosure Filings in Maryland” by The Reinvestment Fund. February 2008.

<sup>34</sup> Results of 2007 Roper Survey of delinquent borrowers funded by Freddie Mac.  
[www.freddiemac.com/singlefamily/news/newsletter/2008/02/survey.html](http://www.freddiemac.com/singlefamily/news/newsletter/2008/02/survey.html)

The Greater Minnesota Housing Fund and the Family Housing Fund have provided long-term support to the Minnesota Home Ownership Center, a network of 50 nonprofit, government and tribal organizations, to provide outreach and foreclosure counseling services to families throughout Minnesota.

- *Support Local and Regional Counseling Programs*

According to estimates, two to three million households may be facing foreclosure in the next two years. Nonprofit counselors are able to provide invaluable support to these families by helping them negotiate loan workouts to remain in their homes or assisting them with a “soft landing,” thereby mitigating the negative impacts of foreclosures on these families and their communities. Nonprofit counselors are struggling under the surging workload in foreclosure counseling and desperately need greater financial support. In addition, increased financial counseling for potential homebuyers could help prevent more foreclosures in the future. Unfortunately, recent federal funding for foreclosure counseling offered by the National Foreclosure Mitigation Counseling Program provides only short-term funding through 2008 and, by design, does not allow for building capacity but only for direct service delivery.

By contrast, the Cleveland and George Gund Foundations have been substantial, patient, long-term supporters of building capacity in nonprofits in the Cleveland area for foreclosure counseling work. “We are trying to understand the nature of the crisis and trying to build the ‘magnificent capacity’ of the nonprofit system to solve the problems of this horrible crisis – to build systematic solutions,” notes Robert Jaquay, associate director of the George Gund Foundation. “We’ve been well served and our philanthropy has done good things by patiently sticking with building nonprofit capacity—consistently building adaptive and responsive nonprofit capacity over the long-term (not just ‘three years and out’).” Jaquay continues, “Foundations need to reconsider the notions of wealth-building, by not letting people get beyond their financial capacity [by buying more expensive homes than they can afford]. Lower-income families need to have enough financial capacity to withstand economic hiccups.”

- *Help Develop Reuse Strategies for Vacant, Foreclosed Properties*

“No doubt, there will be one-quarter to three-quarter million REO (“Real Estate Owned”) properties coming down the pipeline [through lender foreclosures in the next few years],” warns Ford Foundation Program Officer George McCarthy, an acknowledged expert on the current mortgage crisis. “There is likely to be major federal activity put in place. The question is, how large a pool of federal money is needed to help localities fund strategies to manage and reuse vacant properties? And what’s the capacity on the ground to handle this volume?” McCarthy urges foundations to start planning intervention strategies with local communities to be able to acquire and reuse these vacant properties before they destroy the quality and value of neighborhoods across the country.

The Kresge Foundation is also taking a lead role in addressing the vacancy issue in Detroit where almost 40,000 foreclosures are expected in the next few years. Jackson of Kresge notes that the foundation's response is evolving but has included organizing planning sessions with stakeholders to identify potential strategies to address the collateral damage through vacant property campaigns, demolition strategies, land banks, "Adopt-A-Home" programs and even grassroots mobilization efforts to engage neighbors in maintaining nearby vacant properties.

- *Provide Resources to Legal Advocates and Direct Action*

Many homeowners facing foreclosure have been victimized by unscrupulous mortgage brokers and high-priced subprime loans. Some are victims of outright fraud and illegal activities, but few know their rights or can afford legal assistance. Foundations can provide financial support to legal aid groups to help provide legal representation and support to these distressed homeowners.

Jaquay of the George Gund Foundation urges a comprehensive approach to the foreclosure problem. He adds, "We've made a conscious decision in grantmaking not to fund proposals to deal with just one consumer at a time, rather we are looking for proposals that create systematic changes and are able to assist large pipelines of consumers who are in trouble. We have supported and invested in ongoing systems that are responsive and useful to get a group engaged on the problem and thinking through solutions. For example, we funded legal advocacy work to build the political will for policy changes in the state legislature in Ohio."

The George Gund Foundation has also supported "direct action" organizing projects—such as the Eastside Organizing Project—to help neighborhood residents in Cleveland respond to the foreclosure crisis. This organization has effectively used direct actions against mortgage brokers and predatory lenders to negotiate agreements with lenders and servicers to renegotiate ARMs, provide triage to clients in remediation, and literally prevent hundreds of foreclosures.

- *Define a National Policy Role for Foundations*

It is time, suggests George McCarthy, for foundations to collaborate, show leadership and develop a national voice to address key policy issues related to this mortgage crisis. This coalition of foundations could press for stronger regulation of mortgage lenders, stronger enforcement of mortgage lending laws, more funding for counseling and refinancing strategies, fairer bankruptcy reform, and a comprehensive solution to the current foreclosure crisis rather than the temporary band-aid solutions applied to date.

"Perhaps we've forgotten the lessons of the Great Depression," muses Jacquay. "When markets turn sour, regulations are needed for markets to function correctly. Without those regulations, excessive greed will win out and many innocent people will get hurt."

## APPENDIX A. NIGHTMARE MORTGAGES

Here is a sampling of the vast and troubling array of mortgages that have trapped unsuspecting homeowners in the current surge of mortgage defaults and foreclosures. These mortgage products are risky because:

- They are inappropriate loan products for many customers, especially lower-income households, but tend to be very lucrative for the lenders.
- They can result in greatly increased payments as the monthly mortgage payments move from low “teaser” rates to fully indexed rates.
- The amount owed on the mortgage could be greater than the value of the home.
- Negative amortization could occur; the principal balance owed by the borrower could increase rather than decrease over time.

### *Interest-Only Mortgages*

An interest-only mortgage allows a borrower to pay only the interest on the loan for a certain period of time. After that, the borrower must repay both the principal and the interest. Many interest-only mortgages are adjustable rate, meaning that the interest rate changes over time. These mortgages are dangerous because if a borrower only makes the minimum monthly payment, the mortgage debt may grow rather than decrease over time. If the borrower was qualified on the basis of the interest-only payment, a fully amortizing payment may not be affordable.

### *Piggyback Mortgages*

Piggyback mortgages combine a first mortgage with a second mortgage that close simultaneously. This combination reduces the borrower’s down payment and typically means that mortgage insurance is not required. For example, an 80-20 piggyback is made up of a first mortgage covering 80 percent of the purchase price and a second mortgage covering the remaining 20 percent. These mortgages are dangerous because a borrower has little or no equity in the property. Moreover, the existence of a piggyback loan makes resolving a default on the first mortgage through a loan modification much more difficult, if not impossible.

### *Low Doc or No Doc Mortgages*

A Low Doc or No Doc mortgage has traditionally been targeted to borrowers who have good credit, but because they are self-employed or lack records (such as payroll stubs and W-2 forms) were unable to meet the loan documentation requirements. Similar loans are called Stated Asset, Stated Income, No Asset or No Income Loans. Borrowers typically paid higher interest rates and fees to qualify for these mortgages. These loans were mainstreamed within the past five years. These loans have been given the name “Liar Loans” because studies have shown that borrower incomes were overstated in more than 50 percent of cases.

### *Payment-Option or Option-ARM Mortgages*

A Payment-Option mortgage allows a borrower to choose among several payments each month. The options typically include a traditional payment of principal and interest; an interest-only payment; or a minimum payment based on a low initial teaser rate. The difference between the option amount that is paid and the amount that should have been paid based on the actual loan terms is added to the loan balance, thus creating negative amortization whereby the mortgage balance owed by the borrower is growing every month.

An Option-ARM is an adjustable-rate mortgage with flexible payment options, monthly interest rate adjustments and very low minimum payments in the early years. These are also derogatorily called “Exploding ARMs” since they often result in greatly increased mortgage payments after the initial teaser rate ends. When the borrower makes only the minimum monthly payment, it is insufficient to pay all of the interest due, so more could be owed than was initially borrowed.

#### *Balloon Mortgages*

A balloon mortgage is payable in full after a period that is shorter than the amortization term. On a five-year balloon loan, for example, the payment is usually calculated over a 30-year period, and the balance at the end of the fifth year must be repaid or refinanced. In most cases, this means the borrower has to refinance the mortgage at the end of the balloon period, risking that the new mortgage may have higher monthly payments as well as having the expense of new closing fees.

#### *Cash-Out Refinancing Mortgages (103s, 107s and 125s)*

This type of mortgages allow a homeowner to refinance his or her home for more than it is actually worth in order to make home improvements, or worse yet, to pay off credit card debt or buy a new car. However, the borrower’s home value may not appreciate enough to cover the value of the new mortgage, and these loans typically come with high interest rates and fees.

## APPENDIX B. FORECLOSURE IMPLICATIONS AND CIRCUMSTANCES

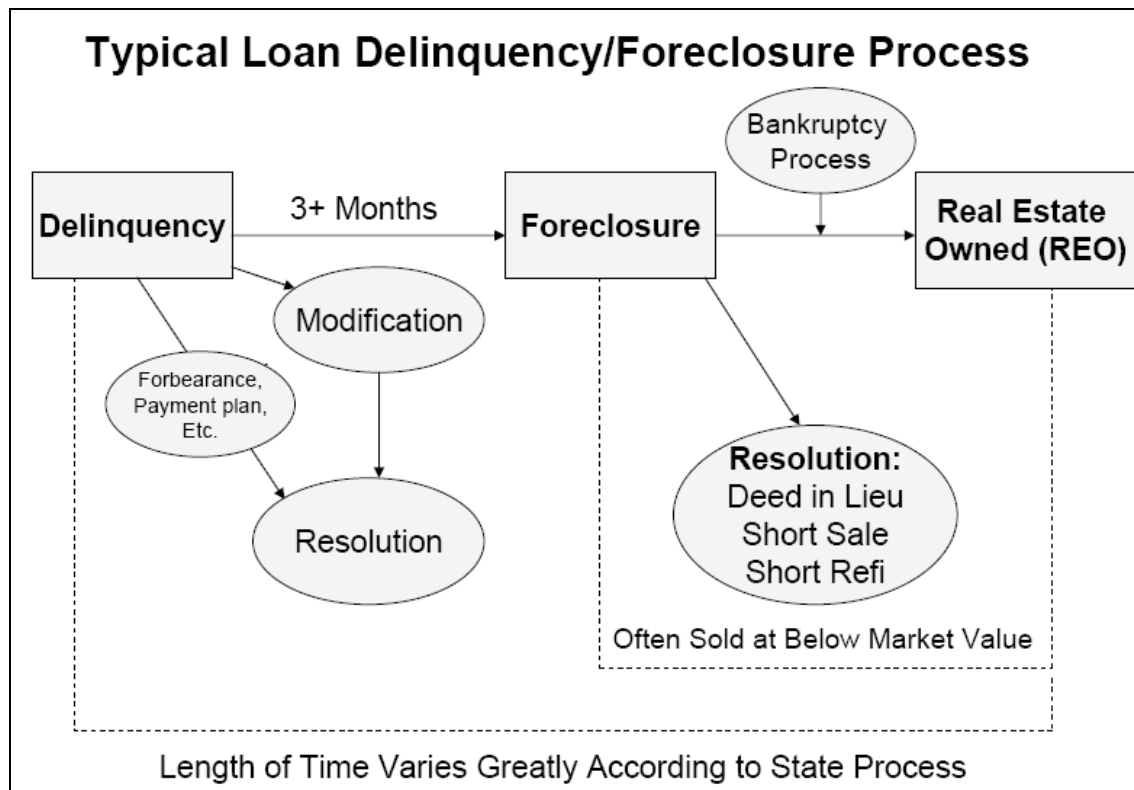
Stakeholder	Implications of Foreclosure
Homeowners	<ul style="list-style-type: none"> <li>▪ Loss of stable housing</li> <li>▪ Legal, financial and tax consequences</li> </ul>
Mortgage Insurers	<ul style="list-style-type: none"> <li>▪ Claims paid</li> </ul>
Loan Servicers	<ul style="list-style-type: none"> <li>▪ Loss of income stream from servicing loans</li> </ul>
Secondary Market	<ul style="list-style-type: none"> <li>▪ Losses/expenses beyond insurance proceeds</li> </ul>
Cities	<ul style="list-style-type: none"> <li>▪ Possible costs of boarding up vacant structures</li> <li>▪ Possible erosion of tax base</li> </ul>
Neighborhoods	<ul style="list-style-type: none"> <li>▪ Negative neighborhood image</li> <li>▪ Declining property values</li> </ul>

Sources: Moreno, *Mortgage Foreclosure Prevention Program* (1995) and Quercia, Cowan and Moreno (2004)

Figure 6: Matching Strategies to Borrower Circumstances		
Prospects	+	–
Income Loss	Temporary loss: Emergency loan or grant	Long-term loss: Sell home
Credit	Good credit: Refinance, loan workout with lender	Poor credit: Debt management counseling
Property Condition	Good collateral: Can sell home	Distressed home: Requires property services/investments
Borrower Knowledge	Knowledgeable: Counsel regarding options with lender	In denial: Make contact; intensive counseling

Source: J. Michael Collins “Analyzing Elements of Leading Default-Intervention Programs.”

## APPENDIX C. TYPICAL LOAN DELINQUENCY AND FORECLOSURE PROCESS



Source: Adapted from George McCarthy, "Reducing Foreclosures' Negative Effects on Neighborhoods." Presentation to the Detroit Neighborhood Forum. April 2008.



## APPENDIX D. TYPICAL LOSS MITIGATION OPTIONS

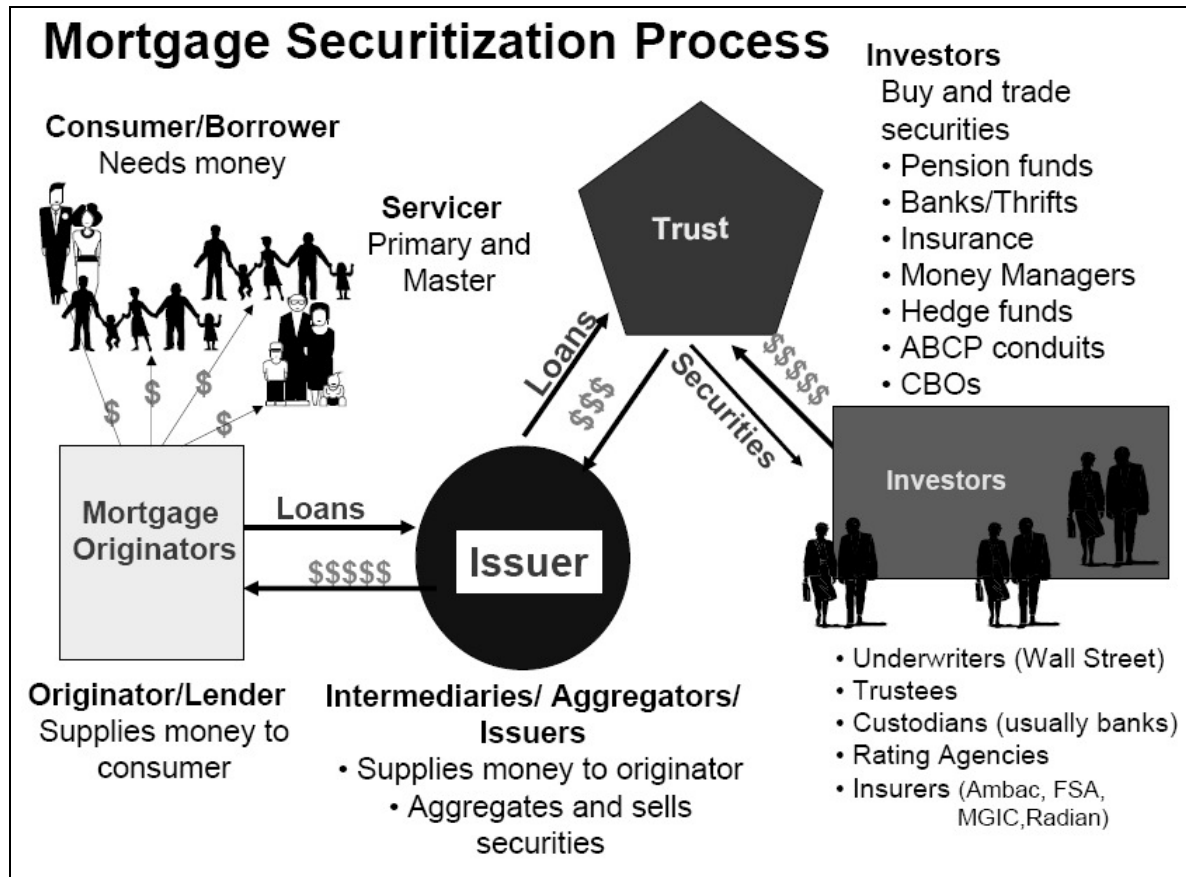
Option	Beneficial If...	Allows Borrower to...
<b>Forbearance</b>	Borrower has a source of funds to bring the account current by a certain date.	Arrange for a temporary reduction or suspension of payments for a specified time period, after which another option must be agreed upon to bring the account current.
<b>Repayment Plan</b>	Borrower's financial difficulties are short-term.	Resume making regular mortgage payments in addition to a portion of the past due payments.
<b>Modification</b>	Borrower can make payments on the loan, but does not have enough money to bring the account current, or the borrower cannot afford the total amount of the current payment.	Modify the terms of the original loan to make the payments more affordable.
<b>Short Sale</b>	Payoff amount of borrower's loan is greater than the fair market value of the property.	Possibly sell the home for less than what is owed.
<b>Assumption</b>	Loan is non-assumable, but there is a qualified buyer.	Possibly sell the home for less than what is owed.
<b>Deed-in-Lieu</b>	Borrower has had the property for sale for a period of time with no activity.	Release the title to the property as settlement of the debt.

Source: PolicyLab Consulting Group. "Analyzing Elements of Leading Default-Intervention Programs"

## APPENDIX E. LOSS MITIGATION OPTIONS BY LOAN TYPE

Loss Mitigation Options by Loan Type							
		Investors					
		GNMA		Conventional			
Workout Options		VA	FHA	FHLMC	FNMA	Bank Owned Property	Private Investor
Retention Options	Special Forbearance		X	X	X	X	X
	Forbearance		X	X			
	Repayment Plan	X		X	X	X	X
	Partial Claim		X				
	Modification	X	X	X	X	X	X
Liquidation Options	Make Whole			X			
	Pre-Foreclosure Sale						
	Pre-Foreclosure Sale	X	X	X	X	X	X
	Short Sale						
Deed-in-Lieu		X	X	X	X	X	X
Source: Homeowner's Assistance Department of Chase Home Finance							

## APPENDIX F. OVERVIEW OF THE MORTGAGE SECURITIZATION PROCESS



Source: J. Michael Collins, PolicyLab Consulting Group.

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1301 Connecticut Ave. NW, Suite 500  
Washington, DC 20036  
Phone: (202) 833-4690  
Fax: (202) 833-4694  
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